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Statements of Position

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1974

# Audits of fire and casualty insurance companies: revision of form of auditor's report; Statement of position 1974 July;

American Institute of Certified Public Accountants. Auditing Standards Division

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# **Statement of Position**

**Revision of Form of  
Auditor's Report**

**Audits of Fire and Casualty  
Insurance Companies**

**July 1974**

**Issued by the Auditing Standards Division  
American Institute of Certified Public Accountants**

## NOTICE TO READERS

The American Institute of Certified Public Accountants has issued a series of industry-oriented audit guides that present recommendations on auditing procedures and auditors' reports and in some instances on accounting principles, and a series of accounting guides that present recommendations on accounting principles. Based on experience in the application of these guides, AICPA task forces may from time to time conclude that it is desirable to change a guide. A Statement of Position is used to revise or clarify certain of the recommendations in the guide to which it relates. A Statement of Position represents the considered judgment of the responsible AICPA task force.

To the extent that a Statement of Position is concerned with auditing procedures and auditors' reports, its degree of authority is the same as that of the audit guide to which it relates. As to such matters, members should be aware that they may be called upon to justify departures from the recommendations of the task force.

To the extent that a Statement of Position relates to standards of financial accounting or reporting (accounting principles), the recommendations of the task force are subject to ultimate disposition by the Financial Accounting Standards Board. The recommendations are made for the purpose of urging the FASB to promulgate standards that the task force believes would be in the public interest.

### Insurance Auditing Task Force

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## Audits of Fire and Casualty Insurance Companies

The AICPA issued in 1966 the industry audit guide, *Audits of Fire and Casualty Insurance Companies*. Chapter 9 of that guide included recommendations on the form of the auditor's report. In December 1972, the AICPA issued an industry audit guide entitled *Audits of Stock Life Insurance Companies*. The recommendations on the form of the auditor's report in that guide varied from the recommendations set forth in the fire and casualty audit guide. It is the considered judgment of the AICPA Insurance Auditing Task Force that the portion of chapter 9 on pages 64 through 70 of the fire and casualty audit guide that deals with the form of the auditor's opinion should be revised; that portion is superseded by this Statement of Position.

The preferable method of financial statement presentation to avoid the need for qualification of the auditor's report is to present the financial statements in accordance with generally accepted accounting principles.

When the financial statements of fire and casualty insurance companies, used for purposes other than filing with regulatory authorities, have been prepared in conformity with regulatory practices, the independent auditor should follow the requirement of section 544.02 of SAS No. 1 that—

. . . material variances from generally accepted accounting principles, and their effects, should be dealt with in the independent auditor's report in the same manner followed for companies which are not regulated. Ordinarily, this will require either a qualified or an adverse opinion on such statements. However, an adverse opinion may be accompanied by . . . [an opinion] . . . on any supplementary data fur-

nished which are fairly presented in conformity with generally accepted accounting principles.

Independent auditors' reports which might be used are illustrated below.

### **Effects of Variances From Generally Accepted Accounting Principles Have Been Determined**

*Qualified Opinion.* When the financial statements of a fire and casualty insurance company have been prepared in conformity with regulatory practices, and the effects of the variances from generally accepted accounting principles are sufficiently material to require a qualified opinion, the auditor's report might be worded as follows:

We have examined the balance sheet of X Company as of December 31, 19\_\_\_\_, and the related statements of income, changes in surplus and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Company presents its financial statements in conformity with accounting practices prescribed or permitted by the Insurance Department of the State of \_\_\_\_\_. The effects on the accompanying financial statements of the variances between such practices and generally accepted accounting principles are described in Note X.<sup>1</sup>

In our opinion, except for the effects of the matters referred to in the preceding paragraph, the aforementioned financial statements present fairly the financial position of X Company at December 31, 19\_\_\_\_, and the results of its operations and changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

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<sup>1</sup> If the effects of the variances are not described in a note, they should be set forth in this paragraph.

If a statement of changes in financial position on a statutory basis is not presented, the omission should be dealt with in accordance with sections 545.04 and .05 of SAS No. 1.

*Adverse Opinion.* When the financial statements of a fire and casualty insurance company have been prepared in conformity with regulatory practices, and the effects of the variances from generally accepted accounting principles are so material that, in the independent auditor's judgment, a qualified opinion is not justified, an adverse opinion will be required. The adverse opinion will usually be followed by an opinion on any supplementary data presented in conformity with generally accepted accounting principles. When such data are presented separately, rather than in notes to the financial statements, the scope paragraph of the independent auditor's report should be expanded to include references to supplementary data and a second paragraph should be added referring to the variances from generally accepted accounting principles worded as in the prior example. The opinion paragraph might be worded as follows:

It is our opinion that, because of the materiality of the effects of the differences between generally accepted accounting principles and the accounting practices referred to in the preceding paragraph, the aforementioned financial statements do not present fairly the financial position of X Company at December 31, 19\_\_\_\_, or the results of its operations or changes in its financial position for the year then ended, in conformity with generally accepted accounting principles. It is our opinion, however, that the statements of adjustments to arrive at stockholders' (members') equity and net income present fairly stockholders' (members') equity at December 31, 19\_\_\_\_, and net income for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

When the supplementary data are included in a note to the financial statements, the last sentence of the opinion would read as follows:

It is our opinion, however, that the supplementary data included in Note X present fairly the stockholders' (mem-

bers') equity at December 31, 19\_\_\_\_, and net income for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Variances Not Affecting All Financial Statements.* When the effects of variances from generally accepted accounting principles are material to one or more but not all of the financial statements, the auditor's report may include an unqualified opinion on the statements not so affected.

### **Effects of Variances From Generally Accepted Accounting Principles Have Not Been Determined**

When the financial statements of a fire and casualty insurance company have been prepared in conformity with regulatory practices, and the effects of variances from generally accepted accounting principles have not been determined by the company, the auditor should generally be able to reasonably estimate whether such effects (a) would be immaterial so as to permit issuance of an unqualified opinion, (b) would be sufficiently material to require issuance of a qualified opinion, or (c) would be so material as to require issuance of an adverse opinion. In reporting, the auditor should then follow the appropriate form recommended above. If the auditor is not able to reasonably estimate the effects of variances, he should disclaim an opinion; his report might read as follows:

(Standard scope paragraph)

The Company presents its financial statements in conformity with the accounting practices prescribed or permitted by the Insurance Department of the State of \_\_\_\_\_. The variances between such practices and generally accepted accounting principles are described in Note X.<sup>2</sup> The effects of such variances on the accompanying financial statements have not

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<sup>2</sup> If the variances are not described in a note to the financial statements, they should be set forth in this paragraph.

been determined. Therefore, we do not express any opinion on the aforementioned financial statements as to fair presentation of financial position or results of operations or changes in financial position in conformity with generally accepted accounting principles.

## **Opinions on Presentations in Conformity With Regulatory Practices**

Section 544.04 of SAS No. 1 states that—

In instances where the financial statements of regulated companies purport to be primarily presentations in accordance with prescribed accounting regulations, the independent auditor may also be asked to report upon their fair presentation in conformity with such prescribed accounting. There is no objection to the independent auditor's report containing such an opinion provided that the first standard of reporting is also observed by the issuance of a qualified or adverse opinion, as required by the circumstances.

When the auditor is asked to report in this manner, he may do so by adding the following opinion to the concluding paragraph of any prior examples:

It is our opinion, however, that the aforementioned financial statements present fairly the financial position of X Company at December 31, 19\_\_\_\_, and the results of its operations and changes in its financial position for the year then ended in conformity with accounting practices prescribed or permitted by the Insurance Department of the State of \_\_\_\_\_, applied on a basis consistent with that of the preceding year.

## **Effective Date**

The Insurance Auditing Task Force recommends that the foregoing reporting be applied with respect to auditors' reports on financial statements of fire and casualty insurance companies for periods ending after September 30, 1974, and encourages earlier application.